THE NIGERIAN ECONOMY & OUTLOOK FOR 2014

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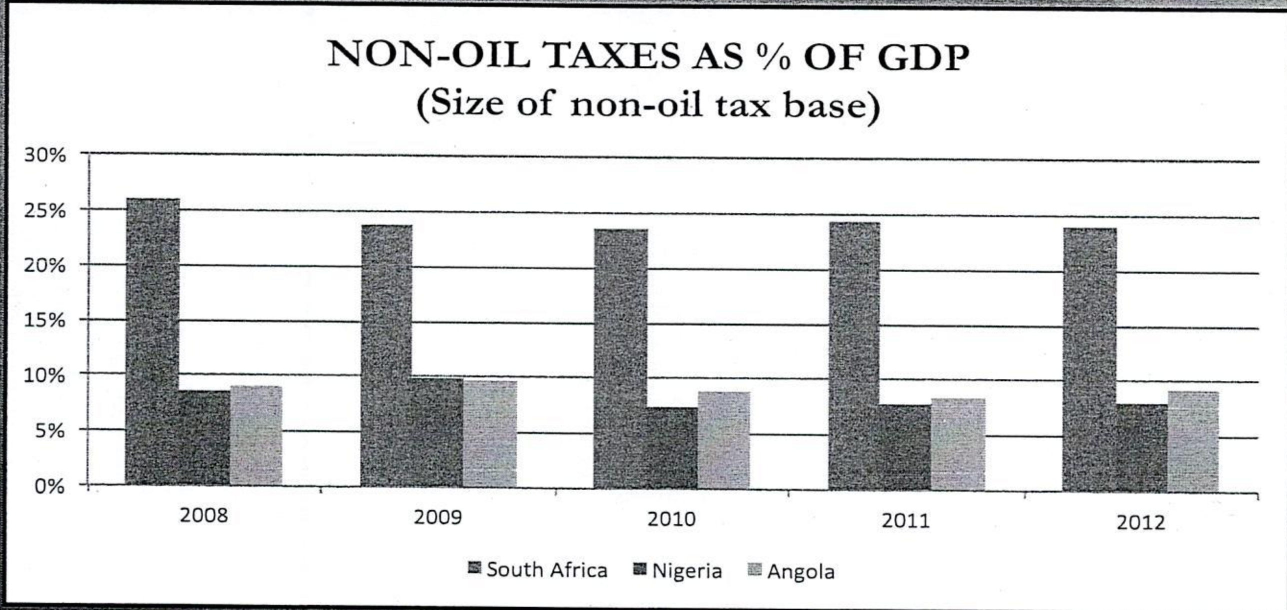
REVENUE OF GOVERNMENT

Nigeria's non-oil tax base is too low



Sources: SARB, FMF, BNA

REVENUE OF GOVERNMENT

Tax reforms are needed to grow tax base

- Examples of reforms required
  - Companies' Income Tax
    - Lower rate of tax for small companies
  - Personal Income Tax
    - Tax rates should be left to individual States to determine
  - VAT
    - Increase tax rate to not less than 10%
    - Allow zero rate or exempt necessaries
- Overall impact should be to increase tax revenues and avoid adverse impact on the poor and weak in society.

REVENUE OF GOVERNMENT

2014 Budget

- The "big assumptions" underlying the 2014 revenue projections are unreasonable!
  - Oil production - 2.4 million barrels per day
  - Oil price - US$ 74 per barrel
- The view is based on the realities of 2013
  - According to OPEC, crude oil production averaged 1.8 million barrels per day during the first nine months of 2013.
  - So far, the affective price used to distribute revenues in 2013 has been above $110 per barrel!
- If State governments agree to these assumptions, they will receive lower sums from the Federation Account in 2014.

FGN FINANCES IN 2014

FGN borrowing requirement is likely to increase pushing domestic interest rates in same direction

- Assuming crude oil production remains at 2013 level
  - FGN budget deficit will be about =N= 1.6 trillion in 2014
  - This deficit will be financed largely by
    - Distributing what should have gone into the *Excess Crude Account* as savings
    - Borrowing from the domestic market
- Higher borrowings by the FGN from the domestic market is likely to push up interest rates with adverse impact on States that have issued bonds at floating rates.

EXTERNAL SECTOR

We are likely to see small to moderate currency depreciation in 2014

- Export revenues have dropped from about $100 billion in 2012 to about US$ 85 billion in 2013 due to lower oil production.
- Nigeria is unable to build external reserves in a period of high oil prices.
- Export revenues for 2014, unlikely to exceed the US$ 85 billion projected for the current year.
- Nigeria may begin to lose reserves (particularly if oil prices fall below US$100 per barrel) unless import appetite is curbed.
- There are fears that the Naira may weaken against the US$.
- This could lead to imported inflation.

INFLATION & INTEREST RATES

Inflation and interest rates are likely to rise

- INFLATION
  - Currency depreciation, general wage increases and increase in government spending may drive up domestic prices.
- INTEREST RATES
  - Increased FGN borrowing and further tightening of liquidity by the CBN in 2014 likely to lead to a rise in domestic interest rates

THE REAL SECTOR

Real growth to remain around 6-7% p.a.

- Big reforms required must be implemented through ***Public Private Partnerships (PPP)***
- Big reforms necessary
  - Electric Power
    - Ownership of the Transmission Company should be reviewed
  - Railways
    - Reforms are urgent and important and must include the private sector
- These two areas are critical to unleashing double digit growth in Nigeria!

THE REAL SECTOR

Key success factors for implementing PPPs in Nigeria

- The operating model for implementing PPPs in Nigeria should have the following key elements
  - Government ownership in the sector must reduce significantly - at least to minority stake
  - Government must not manage any of the key businesses in the sector - directly or indirectly
  - There must be fiscal incentives for new entrants post reform
  - Strong independent regulator(s) must emerge
  - Free flow of "clean' capital from within and outside of Nigeria
  - Producers of goods and services should be allowed to set their prices
  - Their must be a a safety net for the poor and weak in society to access services
  - Obligation to list company on the Nigerian stock Exchange after a specified number of years

THANK YOU!

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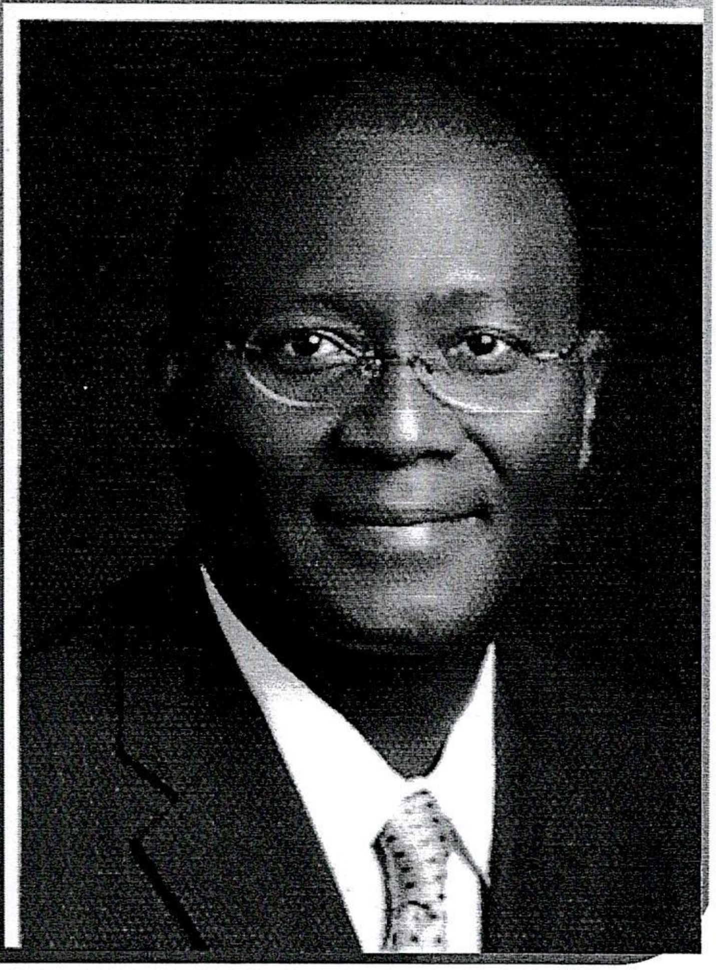
ABOUT THE PRESENTER



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